

August 31, 2010

**MONTANA STATE FUND
REQUEST FOR PROPOSAL - ADDENDUM 1
RFP NO. MSF 45
RESPONSE DUE DATE: September 14, 2010 at 5:00 p.m.
TITLE: ENTERPRISE RISK MANAGEMENT (ERM) SERVICES**

ADDENDUM NO.1

Please make the following addition to the above-referenced "Request for Proposal".

Attached are written questions received in response to this RFP. These questions, along with the Montana State Fund's response, become an official amendment to this RFP.

Question 1. How many stakeholders will participate in the ERM Program? (Section 3: Scope of Project; page 11-12)

Answer

The makeup of MSF's primary project team would be as follows.

- a. 2 Executive sponsors.
- b. 2 leaders from the organization to serve as overall project managers.
- c. 1 project leader to coordinate activities between the consultant and MSF
- d. 1 administrative assistant.
- e. The Montana State Fund executive team will provide governance review of recommendations provided by the consultant and project team.
- f. The consultant and project team will determine the additional involvement of MSF staff and the extent of that involvement.

Question 2. What technology applications are in scope for MSF's Enterprise Risk Management (ERM) Program? (Section 3: Scope of Project; page 11-12)

Answer

MSF expects the ERM project will incorporate an understanding of existing MSF technology applications in assisting us to identify and evaluate associated risks and opportunities. The MSF analytical tools described in Section 3 on pages 11 and 12 provide an overview of current risk management processes expected to continue.

See also, answer to Question 5.

Question 3. If ERP is in scope for MSF's ERM program, how many system users are there? Please exclude self service users from this count. (Section 3: Scope of Project)

Answer

The scope of the engagement is to assist MSF in establishing the framework the organization will use for the ERM program that will be the most cost effective and understandable approach to managing organizational risk, whether applying mitigating strategies or identifying opportunities. In establishing this initial framework, ERP is not initially contemplated but can be identified for future development.

Question 4. Please describe the level of deployment, adoption rate and life cycle maturity of the state's risk management analytical tools? (Section 3: Scope of Project; page 11-12)

Answer

The management analytical tools identified in the RFP are all fully deployed and used for management decisions throughout the organization. The following provides a summary of the identified management tools used by MSF.

- a. Annual Evaluation of MSF Capital Requirements – the MSF management and Board of Directors utilize this analysis in determining the level of policy holder equity (surplus) MSF should target to ensure an appropriate level of financial solvency. The Board uses this information in determining an annual dividend amount.
- b. Dynamic Financial Analysis (DFA) – this analysis is updated every three years. It is used to supplement the evaluation of capital requirements. It is also used by MSF management in assessing risk of financial stress and insolvency.
- c. Semi-Annual Reserve & Rate-Level Analyses are completed by the MSF independent consulting actuary. The actuary conducts a full independent analysis for presentation to management and the Board of Directors for rate level decisions and loss reserves selections for the MSF financial statements.
- d. Quarterly Internal Reserve and Rate-Level Analyses (Loss Monitoring Reports) are updated each quarter.
- e. Annual Review of MSF Tiered Rating is an analysis of MSF's rate tier plan. It is used by management to make recommendations to the Board for changes to the tier plan.
- f. Monthly Monitoring of Claim Management is used by all levels of the organization in reviewing trends for claim management improvements.
- g. Insurance Intelligence was initially implemented approximately two years ago. See other responses directly associated with this tool.
- h. Enterprise Strategy & Project Management (ESPM) is the strategic planning function for the organization that is completed annually.

Question 5. What is the expectation of the state relative to ERM “software and reporting” requirements/tools? (Section 3.0.2 C.; page 13 and Section 5: Cost Proposal line item; page 16)

Answer

As part of this project, Montana State Fund is seeking the ability to centralize the ERM information in a format that supports us in implementing, managing and documenting the ERM process. The tool should be electronic, not complex to access, utilize or maintain and allow for a reporting function of the data/information contained in the tool. The tool should include but is not limited to the ability to track and report on the following:

Identified areas of risk/ where in organization the risk is located, the summarization of the assessment and evaluation of risks, categorization and prioritization of risks, actions taken or to be taken, and status of monitoring/follow-up.

If there is a separate cost for this type of tool the cost should be identified in the cost proposal.

Question 6. What is the level of documentation available of the state’s current risk management policies, practices and processes? (Section 3.0.1 Scope of Services; page 12)

Answer

The various policies, procedures and processes of current risk management are documented sufficiently to determine their scope.

Question 7. Does the state expect that the cost of proposal include creating/revising risk management policy, procedure and process documentation for new/modified ERM practices? (Section 3.0.1 Scope of Services, page 12)

Answer

Yes.

Question 8. Can more details be provided around MSF's project team roles and responsibilities and number of project team members? (Section 3.0.1 Scope of Services; page 12)

[Answer](#)

See answer to Question 1.

Question 9. How many discovery sessions/workshops with the state's stakeholders are anticipated in order to gather the business requirements to deliver the ERM framework blueprint? (Section 3.0.2 I.B Timeline; page 13)

[Answer](#)

To be determined by Vendor in coordination with MSF. MSF requests Vendor's expertise and guidance in this area.

Question 10. What is the state's expectation of tools to be used to facilitate the ERM change management campaign and training workshops for the state's ERM initiative? (Section 3.0.2 Timeline I.A, II.A. and C .; page 13)

[Answer](#)

The Offeror should identify tools or applications for the training to be used to train MSF employees and implement an ERM program for MSF.

Question 11. What work deliverables (work instructions, etc.) does the state expect from the ERM change management campaign and training workshops? (Section 3.0.2 Timeline I.A, II.A and C.; page 13)

[Answer](#)

MSF expects the consultant to assist in setting the goals and objectives of the MSF ERM program and provide matrices and tracking mechanisms and methodology used in identifying and prioritizing risks, tracking, monitoring, and reporting risks within the organization. The initial training to MSF leadership should provide an understanding of ERM, the goals of ERM, how an ERM project establishing a framework can be completed and the expectations MSF leadership might expect for them and their staff. The training to all MSF staff is intended to provide an understanding of the ERM framework created and established in the initial phase of the project, and how the ERM project will be run during the next phase and their role in ERM in the organization.

See also, answer to Question 5.

Question 12. How does the state anticipate facilitating the logistics of the training sessions and where will the training sessions be held? (Section 3.0.2 Timeline I.A., II.A. and C.; page 13)

Answer

The training sessions will be held at Montana State Fund's office building and MSF staff will support notice of the meeting to attendees, arrange for set up of the room, and provide any necessary AV equipment.

Question 13. How many employee training workshops on the state's ERM framework are anticipated to be held? How many employees will participate in this training? (Section 3.0.2 Timeline II.A; page 13)

Answer

MSF has approximately 280 employees and it is anticipated that most will attend the training to be provided in year 2 by August 31, 2011. We would anticipate separating the employees into three groups and provide three different sessions not exceeding 2-3 hours each.

Question 14. How many risk evaluation workshops are anticipated and how many individuals will participate? (Section 3.0.2 Timeline II.B; page 13)

Answer

The number of risk evaluation workshops and the participants at each are to be determined by Vendor in coordination with MSF. MSF requests Vendor's expertise and guidance in this area.

Question 15. Will the state share the bidder's list? (Section 2.1; page 8)

Answer

This is not a bid process, but is a RFP process. We can provide the list of respondents, but only after the time/date set for receipt of proposals.

Question 16: Section 2: RFP Standard Information, Evaluation of Proposals, Page 9, Section 2.3.3.: When and how will we be notified if an evaluation committee meets to deliberate and evaluate the proposals, where the public may attend and observe the evaluation committee deliberations? Where would such a meeting take place?

[Answer](#)

The notice of meetings of the evaluation committee will be posted on the Department of Administration's "One Stop Vendor Information" website <http://svc.mt.gov/gsd/onestop/SolicitationDefault.aspx> with at least 72 hours advance notice. The meetings will take place at the Montana State Fund office building.

Question 17: Section 3: Scope of Project, analytical tools, page 12, bullet point Insurance Intelligence: Can you provide more details specifically on the type of interface Insurance Intelligence is, as well as what data it accesses and how it is fed into the tool? What reporting capabilities does it have? What data reports are pulled on a regular basis? What is the age of the data when it becomes available? How you believe this tool would link to your enterprise risk management data and reporting needs?

[Answer](#)

The Insurance Intelligence (II) system is a business intelligence data warehouse tool. During a nightly batch process, Extract Translate Load (ETL) interfaces run and access the Claims, Policy, and Medical data from the source systems, copying designated II transactional data from the source systems and feeding it into the II enterprise data warehouse. The business data in the II enterprise data warehouse is provided to end users via the OBIEE software for report writing purposes.

[What reporting capabilities does it have?](#)

- Ability to write custom reports at the enterprise level and at the individual user level.
- Ability to write custom ad hoc queries at the individual user level.
- Ability to develop dashboards and business alerts at the enterprise level.

[What data reports are pulled on a regular basis?](#)

Enterprise reports available daily:

- Accident Year Claim Loss Report
- Accident Year Experience Report
- Policy Year Experience Report
- Fiscal Year Experience Report

- Claim Caseload Analysis Report
- Close Reopen Rates Report
- Daily Transaction Report
- Loss Development Triangles Report
- Premium Pricing Report
- Production Report
- Quotes Report
- Retention In-Force Report
- TTD Claims Report
- Medical Loss Management Reports
 - Drug Cost Analysis Report
 - Fiscal Year Medical Experience Report
 - Fiscal Year Pharmacy Experience Report
 - Medical Bill Savings Report
 - Medical Bill Timeliness Report
 - Medical Price & Utilization Report
 - Top 25 Drugs, Prescribers, & Therapeutic Categories
 - Utilization by Injured Employee Report
- Safety
 - Claim Trending Report
 - Loss Experience Report

What is the age of the data when it becomes available?

- Transactional data is pulled daily during night batch processing.
- Aggregate data generated monthly during night batch processing.

How do you believe this tool would link to your enterprise risk management data and reporting needs?

We do not anticipate a direct link to ERM and data reporting needs, however this tool can provide the following management capability to supplement the ERM reporting.

- Loss Control & Claims Management
- Safety Monitoring
- Policyholder & Premium Management
- Medical & Pharmacy Cost Management

Question 18: Due date: The timing for this RFP is only 30 days from the original issued date (8/13) to the due date (9/14). Is there a possible reason for this?

Answer

The posting of RFPs is typically for 30 days. Unless the RFP is particularly complex, we have found 30 days is adequate for development of a response.

Question 19: mt.gov website: Is bidder, required to meet the vendor requirements prior to bidding on this engagement? We are in the process of submitting our team as a registered vendor in compliance with the Montana "vendor's list" requirements.

[Answer](#)

No.

Question 20: Training: As state in the RFP, this item is unclear. Is this the "effective date" of the contract (as shown on page 5)?

[Answer](#)

The effective date of the contract is anticipated to be in October 2010, depending on the date the contract is ready for execution.

Question 21: Scope: Paragraph 1 in this section refers to ERM as a "project." Does MSF envision a broad based ERM program that addresses areas outside the traditional financial and insurance aspects of risk management?

[Answer](#)

Yes.

Question 22: Framework: Paragraph 2 in this section requests the development of an ERM framework. Is there a desired framework that is currently envisioned by MSF?

[Answer](#)

As provided in 3.0.2, I, B. MSF desires a framework which provides an approach for "identifying, assessing, evaluating, mitigation, monitoring and reporting risks and opportunities"

Also, in 3.0.2, C., as part of this project, Montana State Fund is seeking the ability to centralize the ERM information in a format that supports us in implementing, managing and documenting the ERM process. The tool should be electronic, not complex to access, utilize or maintain and allow for a reporting function of the data/information contained in the tool. The tool should include but is not limited to the ability to track and report on the following:

Identified areas of risk/ where in organization the risk is located, the summarization of the assessment and evaluation of risks, categorization and prioritization of risks, actions taken or to be taken, and status of monitoring/follow-up.

If there is a separate cost for this type of tool the cost should be identified in the cost proposal.

Question 23: Risk Focused Exam[ination]: Is this a reference to an audit function that examines several financial positions for adequacy?

Answer

No, the Risk Focused Examination is described in the NAIC Financial Examiners Handbook and considers organizational, strategic and financial risks.

Question 24: Model Audit Rule: Does the inclusion of this clause require Offeror, to adhere to the National Association of Insurance Commissioners (NAIC) Model Audit Rule (MAR) regarding requirements concerning internal controls over financial reporting (ICFR)?

Answer

MSF expects the Offeror to be knowledgeable of Model Audit Rule requirements and to advise on risk management opportunities that MSF should incorporate in their processes.

Question 25: Risk response: the approaches in part B suggest that the drafters of the RFP are only considering the down-side of ERM. This is evidenced in the use of the word "mitigate" as the only risk response tool. Does the MSF want a true ERM framework or only a traditional risk management (TRM) framework that addresses only pure risks?

Answer

MSF is looking to establish an ERM framework to assist MSF in mitigating risk areas as well as identifying areas to take advantage of opportunities. Therefore MSF is looking for a true ERM project that may be developed.

Question 26: Year two plan: Section II on this page implies that the second year will be a continuation of the first year activities, is that sufficient to meet MSF requirements?

[Answer](#)

Yes, a risk management plan for MSF will be established in Year 2 using the framework established in Year 1.

Question 27: Experience: Offeror has been in operation as a company for a short time, however our consultants' experience aggregate many years in the field of management consulting. Can we use the aggregate years of experience of all consultants working under Offeror, on this project?

[Answer](#)

As provided in the Evaluation Criteria 6.1, the experience of the firm will be evaluated separately from the experience of the individual consultants. The experience of individuals may not be aggregated and substituted for firm experience.

Question 28: Software: The RFP requests the inclusion of the cost of software as a part of the consultant's total fee. Is it acceptable to MSF if Offeror, separates the software cost from the consulting services costs as there is such a wide variation in software costs? We are not software vendors and can offer recommendations on software but cannot control the cost of the specific system that will be purchased by MSF.

[Answer](#)

MSF is requesting a tool as part of this RFP to assist in implementing, managing and documenting the ERM process. If software is your recommended tool - and there is a purchase price for the software - then MSF is requesting that the price of the software be included in your price proposal. The inability to provide a tool may result in the RFP response being determined nonresponsive.

For clarification, Montana State Fund is seeking the ability to centralize the ERM information in a format that supports us in implementing, managing and documenting the ERM process. The tool should be electronic, not complex to access, utilize or maintain and allow for a reporting function of the data/information contained in the tool. The tool should include but is not limited to the ability to track and report on the following:

Identified areas of risk/ where in organization the risk is located, the summarization of the assessment and evaluation of risks, categorization and prioritization of risks, actions taken or to be taken, and status of monitoring/follow-up.

Question 29: Intellectual capital: The RFP specifies "MSF shall retain a license-free ability to use and modify any tool(s) provided under the terms of this contract." Offeror, acknowledges that the intellectual capital provided by our consultants is furnished to and for the exclusive use by the MSF; however we do not wish to be excluded from offering our services to other entities. Is there a mutual use clause that would be acceptable to MSF? Would this also apply to software vendors as to a similar license-free clause?

[Answer](#)

MSF does not intend to exclude a vendor from offering services to other entities. A clause meeting both MSF and vendor needs could be agreed upon. Any tool provided is to be provided license free to use and modify by MSF, but MSF would not sell this tool to another entity or preclude sale of the tool to others and would agree to a clause stating such understanding.

Question 30: Scoring: the weights indicate a preference for an actuarial firm. Is actuarial certification required for bidding on this engagement?

[Answer](#)

No. There is no requirement or expectation of actuarial certification required.

Question 31: Risk matrices: the RFP requests examples of risk matrices and reports. Would this be provided by the consultant after the award of the contract or is this to be done prior to the award of the contract?

[Answer](#)

Since MSF will be evaluating the quality of the methodology the consultant will apply to the project based partially on the tools used to implement, manage and document the ERM process, MSF expects the responses to include examples of matrices and reports used to assist in the successful implementation of an ERM for an organization.

Question 32: Preferences: "Preference is for [experience in] state funds or other workers' compensation insurers that have received services similar to those in the Scope of Services requested in this RFP. Offeror, has not done work specifically for state funds, however our consultants individually have. Is this sufficient for meeting the Preferences requirements?

[Answer](#)

Experience with a state fund, among other types of experience, will be assessed in evaluating the experience of the firm, but experience of a consultant may not be substituted for firm experience.

Question 33: Insurance: the RFP requires the contractor to have certain liability insurance coverage. It is specific in requesting a commercial general liability policy and a "professional liability" policy. Does the MSF require Offeror, to have an "errors and omissions" liability policy in addition to Worker Compensation and General Liability coverage?

[Answer](#)

Yes

Question 34: Registration: the RFP states: "If businesses determine that they are transacting business in Montana, they must register with the Secretary of State and obtain a certificate of authority to demonstrate that they are in good standing in Montana." Is this required prior to submitting a proposal for this engagement?

[Answer](#)

No, but would be necessary before contract execution.

Question 35: Why is this RFP being submitted by MSF at this time? Has MSF experienced a recent risk event that is prompting the RFP?

[Answer](#)

MSF desires to be proactive and thorough in its management of risks and opportunities across the company. ERM is one of our Board approved FY11 Strategic Initiatives for MSF. We want to effectively and comprehensively pull together, report, monitor and leverage our current risk management activities, as well as enhance our processes, fill any gaps in coverage, and utilize an enterprise-wide approach and philosophy. No, MSF has not experienced a recent risk event to prompt this RFP.

Question 36: From our experience working with other state funds, these projects often have predetermined allowed budgets. Is there a budget for the requested services, and if so, what is that amount?

[Answer](#)

MSF manages the operational expenses to operate the organization including the costs of strategic initiatives. As such, MSF does consider the cost of the services outlined in the RFP in establishing the overall operating budgets for MSF. However, since the evaluation of the RFP will focus on the quality of the described services to be provided in the response and the quality of the described methodology used to establish the ERM framework, MSF does not believe there is a benefit to discuss an estimated budget prior to receiving the responses. An additional factor to our response to the above question is that the cost of the proposal is a part of the evaluation of the proposal. The responder should provide their best estimate for the cost of services provided per the RFP.

Question 37: Does MSF have any specific risk management practices, frameworks, policies or guidelines to which the ERM framework must conform or which must be taken into consideration in the development of the framework?

Answer

There are no specific policies or guidelines that the ERM framework must follow. The successful vendor will need to understand the legal requirements MSF must follow and MSF is subject to.

As part of this project, Montana State Fund is seeking the ability to centralize the ERM information in a format that supports us in implementing, managing and documenting the ERM process. The tool should be electronic, not complex to access, utilize or maintain and allow for a reporting function of the data/information contained in the tool. The tool should include but is not limited to the ability to track and report on the following:

Identified areas of risk/ where in organization the risk is located, the summarization of the assessment and evaluation of risks, categorization and prioritization of risks, actions taken or to be taken, and status of monitoring/follow-up.

If there is a separate cost for this type of tool the cost should be identified in the cost proposal.

Question 38: In the background information of Section 3, the RFP lists current risk management analytical tools.

- a. **If needed, would the winning firm have access to these tools given some of the tools may be produced by third party firms?**
- b. **Can you provide more detail regarding the “Annual Evaluation of MSF Capital Requirements”? Does this evaluation involve an actuarial projection of assets and liabilities? How many and what types of scenarios are considered in the evaluation?**
- c. **Can you provide more information regarding the type of data and reports available through the “Insurance Intelligence” tool?**

Answer

Current risk management analytical tools

- a. For purposes of assisting MSF in establishing the ERM framework, the successful vendor would have access to reviewing and understanding these identified tools.
- b. The annual evaluation of capital requirements analyzes the MSF policy holder equity (surplus) position against various criteria including premium to equity ratios, leverage ratios, the NAIC risk based capital various action levels

(RBC), peer company comparisons, and state funds and the dynamic financial analysis. The analysis considers impacts of adverse loss reserve development, hard market and soft market scenarios, interest rate and investment return scenarios, and assumptions of impact in the case of catastrophic events. The results provide management and the Board of Directors with an assessment of the likelihood of failure such as falling below RBC action levels or insolvency. The analysis is completed with the assistance of the MSF independent consulting actuary.

c. See response to Question 2.

Question 39: Section 3.0.1 references a project team that MSF has identified to work on the project. How many resources will be assigned to the team, and will these resources be dedicated to the project full time? What are their current roles within MSF?

Answer

See response to Question 1.

None of the MSF staff identified above have been identified as being involved in the project full time. We have estimated the project leader will be dedicated to the project approximately 30%, and other staff on a less frequent basis. Part of the dedication of MSF resources is dependent on the project plan.

Question 40: Section 3.0.2 notes that one of the Year One activities is the development of reports and a reporting methodology. Is it assumed that the “Insurance Intelligence” tool would be leveraged to support any additional reports that are developed?

Answer

MSF does not expect the Insurance Intelligence (II) tool to be the ERM methodology tool. The reports and reporting methodology expected in year one would be the reports utilized to demonstrate the identification, assessment and prioritization of risk. This would include tracking and reporting to the established governance group on progress. The II tool is expected to be utilized as a source of data and reporting on metrics to support the reports and reporting methodology expected to be developed.

Question 41: Has MSF done any work in the past on indentifying and/or assessing risks?

[Answer](#)

Yes. MSF continually works on identifying and/or assessing risks. Some of our current risk management activities are detailed in Section 3 of the RFP. We also manage risk daily as needed throughout the company within teams, departments, and at many levels. We have an internal audit function staffed with one FTE.

Question 42: Request for Changes to Standard Terms and Conditions

- 1. Offeror has read the RFP issued by MSF and has set forth in the text below certain terms and conditions of the RFP that we request to discuss along with an approach to these issues that we believe will equitably serve the interests of both MSF and us.**

Appendix A: Contract

Section 4 – Ownership Rights

We would like to clarify that information relating to the Agreement may be released as may be required by law, regulation, judicial or administrative process, or in accordance with applicable professional standards or rules, or in connection with litigation pertaining to the Agreement provided that we provide the State notice where possible for them to seek injunctive or other relief.

[Answer](#)

See Section 1.4.1 of the RFP- MSF is unable allow an exception unless submitted by the date of receipt of written questions and include an explanation of why the exception is being sought and its effect on the ability to respond to the RFP or perform the contract. . MSF is willing to address nonmaterial exceptions with the highest scoring offeror during contract negotiations.

Section 6 – Access and Retention of Records

We recognize the State’s need under certain circumstances to have the right to access certain books and records of its contractors. However, we believe that limits should be established on the proposed audit rights contained in this Section. In addition, the agreement must clearly define the appropriate types of records that the Contractor is required to keep in light of the circumstances of the engagement as those records related to the amounts invoiced by Offeror to MSF throughout the term of the engagement, with the ability to redact any confidential information of its personnel or other clients.

Answer

This section of the contract is required by Montana law for MSF. MSF is willing to address nonmaterial exceptions with the highest scoring Offeror during contract negotiations.

Section 8 – Hold Harmless/Indemnification

Offeror is willing to provide indemnification to the State in connection with the services to be provided. This indemnification would need to be negotiated.

Answer

See Section 1.4.1 of the RFP- MSF is unable allow an exception unless submitted by the date of receipt of written questions. MSF is willing to address nonmaterial exceptions with the highest scoring Offeror during contract negotiations.

Section 9 - Assignments

We will need to subcontract certain services to our affiliates, so we would propose that this be clarified in the contract.

Answer

See 1.4.4 of the RFP. Any proposed subcontractors and the scope of their services should be identified in the response to this RFP.

Section 12 - Insurance Requirements

While we agree in principle with this provision, we will need to make certain minor changes to the insurance requirements in order to make these requirements consistent with the insurance that we (as well as other large professional services firms) maintain.

Answer

MSF is willing to address nonmaterial exceptions with the highest scoring Offeror during contract negotiations.

Section 15 - Terminations

While we agree in principle with the provisions of this Section, we believe termination for cause should be based on a material breach of the contract and require 30 days written notice with the breaching party being given an opportunity to cure such breach during the notice period.

Answer

MSF is willing to include language in the contract for an opportunity to cure during the 30 day notice period, but will not include language on a “material” breach.

Additional Terms

We would also like to discuss with the State the addition of certain other terms to the resulting contract, including (i) a commercially standard limitation on Offeror's liability and (ii) a warranty provision which would clarify that we will warrant that our services will be performed by competent personnel and will be of professional quality consistent with generally accepted industry and applicable professional standards for the performance of such services and that no other express or implied warranties are provided.

Answer

See Section 1.4.1 of the RFP- MSF is unable allow an exception unless submitted by the date of receipt of written questions and include an explanation of why the exception is being sought and its effect on the ability to respond to the RFP or perform the contract. . MSF is willing to address nonmaterial exceptions with the highest scoring offeror during contract negotiations.

Question 43: What is MSF's business reason for developing the ERM program at this time (e.g., recent event, Board of Directors mandate, external auditor mandate, etc.)?

Answer

See answer to Question 35.

Question 44: How did you select Offeror as one of the target vendors to receive the RFP?

Answer

MSF notified potential vendors that we are aware of that offer ERM services.

Question 45: Who are the other vendors (besides Offeror) that received the RFP?

Answer

Notice of the RFP was sent to the following:

Accenture, Algorithmics, Aon Benfield, Conning, Deloitte, Deutsche Insurance Asset Management, Eide Bailley, EMB America, LLC, Grant Thornton, Guy Carpenter, KPMG, Milliman, Inc. , Price Waterhouse, Protiviti, Rudolph Financial Consulting, Stamford Risk Analysis, Towers Watson, and Willis Re.

Notice was also sent to the vendors on the state of Montana's Purchasing Vendors List for the quote group of Professional Services – Business Management Services. See Attachment A for list.

Question 46: What is the budget MSF has allocated for external spend relating to the ERM program for each of the fiscal years covered by the RFP (year ended June 30, 2011 and 2012)?

Answer

MSF manages the operational expenses to operate the organization including the costs of strategic initiatives. As such, MSF does consider the cost of the services outlined in the RFP in establishing the overall operating budgets for MSF. However, since the evaluation of the RFP will focus on the quality of the described services to be provided in the response and the quality of the described methodology used to establish the ERM framework, MSF does not believe there is a benefit to discuss an estimated budget prior to receiving the responses. An additional factor to our response to the above question is that the cost of the proposal is a part of the evaluation of the proposal. The responder should provide their best estimate for the cost of services provided per the RFP.

Question 47: Is there an incumbent firm that has provided risk management, audit or other related consulting services?

Answer

There is no incumbent firm that has provided risk management services to MSF. As a point of reference, MSF currently utilizes the services of Towers Watson for independent actuarial services and reinsurance intermediary services, and Eide Bailly for audit services.

Question 48: Will it be possible to have a call with the business owners (buyers) to discuss their needs prior to submission of the proposal?

Answer

No. That is the purpose behind allowing the offerors to submit written questions. In order to preserve the integrity of the process and to ensure that no Offeror has an unfair advantage, all questions are required to be submitted in writing and telephone calls to discuss the RFP are not permitted.

(The following statement refers to Questions 49-53) We are following up with questions pursuant to Section 1.3.2 Form of Questions. Our questions are specific to the contract contained in Appendix A.

When we provide ERM, or any similar analytical services, we do so pursuant to an engagement letter. The crucial elements of our engagement letter are:

Question 49: An indemnification from the client that protects us from liability arising from the services and/or output generated from the services, except that which is the result of our fraud or willful misconduct.

[Answer](#)

MSF is not willing to indemnify contractor for their acts of fraud or willful misconduct. In addition contractor must remain liable for their acts of negligence.

Question 50: A limit of liability typically equal to the amount of fees we receive under the contract. For example, if liability occurred because some party alleged that it was harmed as a result of our output and a court determined that we were not entitled to the indemnity described in 1 above because the indemnity was against public policy in the State of Montana, our liability would be capped at \$x (the amount of fees we received under the contract). This cap would not apply where the liability is the result of our fraud or willful misconduct.

[Answer](#)

MSF is willing to negotiate limiting liability under the contract to MSF only in regards to professional services to MSF. MSF is not willing to limit liability to a contractor's employees or third parties. MSF is not willing to limit liability to fraud or willful misconduct, a contractor must remain liable for their negligence as well.

Question 51: A waiver of jury trial provision. This is simply an agreement by both parties to litigate before a judge, as opposed to a jury in the event of a legal dispute.

[Answer](#)

MSF is not willing to accept this contract term.

Question 52: The contract contained in Appendix A does not contain any of the provisions described above. Are you willing to accept any modifications to the contract and, if so, are you amenable to the above three provisions being included?

[Answer](#)

See 1.4.1 of the RFP and responses above.

Question 53: One more question, specific to Section 17 Venue within the Contract (Page 23): We request that a compromise be made to the nearest federal court in Montana.

[Answer](#)

Venue requirements are in Montana law and MSF is subject to this requirement. MSF will not change the term in the contract.

Question 54: Page 7, Section 1.5.1 – Organization of Proposal

Statement: “A point-by-point response to all numbered sections, subsections, and appendices is required. If no explanation or clarification is required in the Offeror’s response to a specific subsection, the Offeror shall indicate so in the point-by-point response, or utilize a blanket response for the entire section, with the following statement: ‘(Offeror’s Name) understands and will comply.’”

Question: Does this requirement apply to Appendix A – Contract? Presumably, our acceptance of the terms of Appendix A, and hence our ability to state that we understand and comply, will be negotiated after the submission of our response and the Fund’s scoring process. Is it appropriate to adjust the language of the statement for Appendix A to: “(Offeror’s Name) understands and will comply, subject to negotiation and agreement by both parties on final terms of the contract, which will be finalized prior to the start of any work?”

[Answer](#)

This is acceptable, however pursuant to 1.4.1, MSF will only address non-material exceptions with the highest scoring Offeror during contract negotiation.

Question 55: Page 12, Section 3.0.1 – Scope of Services

Statement: “MSF expects the ERM foundation to consider the risk management expectations associated with the Risk Focused Exam and Model Audit Rule requirements.”

Question: Can you provide any details on work that Montana State Fund has done to prepare for the NAIC’s Risk Focused Exam (RFE) and Model Audit Rule (MAR)? This would include recent improvements to the Fund’s internal control framework, creation of formal audit committees and/or improvements to the Fund’s internal and/or external financial reporting processes.

Answer

The Montana State Auditor, Commissioner of Securities and Insurance does not currently regulate MSF. MSF has incorporated controls over financial reporting processes and follows the external auditor requirements defined in the MAR. The MSF Board of Directors receives external audit reports and communications; however, a formal audit committee has not yet been established. An objective of the ERM project would be to identify additional opportunities where it would be beneficial for MSF to align and implement controls and processes associated with the RFE and MAR expectations.

Question 56: Page 12 – 16, Sections 3.0 and 5.0 – Scope of Services and Cost Proposal

Statement: “The Offeror should present their proposal for reimbursement for their services in Year One.”

Comment: It is clear that the fee estimate should contemplate the expenses associated with the performance of services in year one i.e. November 2010 – June 2011. However, Section 3.0.2 – Timeline, outlines a two-year process for ERM planning, education and implementation. Should the RFP response outline scope for both – years one and two, or year one only? Please confirm that fee estimates are for year one only.

Answer

The RFP Response should outline scope for both years, however the fee proposed is to be for the time period through June 30, 2011 only. The fee for the second year will be negotiated at a later date.

Question 57: Page 16, Section 5.0 – Cost Proposal

Statement: “Any costs for software or reporting tools proposed as part of the ERM implementation must be identified and listed as a component of the total cost.”

Comment: The range and cost of ERM software options varies depending on the sophistication of the client’s ERM program and its overall risk management objectives. Is it possible for the Fund to elaborate on the types of software it expects to use for ERM? Or, should Offerors provide details and pricing for their full suite of ERM software applications

Answer

For clarification, Montana State Fund is seeking the ability to centralize the ERM information in a format that supports us in implementing, managing and documenting the ERM process. The tool should be electronic, not complex to access, utilize or maintain and allow for a reporting function of the data/information contained in the tool. The tool should include but is not limited to the ability to track and report on the following:

Identified areas of risk/ where in organization the risk is located, the summarization of the assessment and evaluation of risks, categorization and prioritization of risks, actions taken or to be taken, and status of monitoring/follow-up.

Question 58: In reference to RFP # MSF 45 (Enterprise Risk Management Services) section 3.1 RFP Submission Requirements. It states “description of the firm’s history and experience in providing services similar to the services listed in 3.0 Scope of Services, to state funds and other workers’ compensation insurers.....” If a vendor has provided Enterprise Risk Management (ERM) services/solutions to Financial and Insurance organizations (including providing Property and Casualty, Life and Health), Investment Services, Real Estate Investment Services, Brokerage Services, Investment Banking and Asset Management solutions, thus demonstrating ERM services to these similar organizations faced with the similar ERM issues as that of the Montana State Fund, would that vendor be excluded having not delivered an ERM solution related specifically to State Funds or specific workers’ compensation?

Answer

The vendor would not be excluded if they had not performed services for state funds or specific workers’ compensation insurance providers. MSF is looking for experience in the insurance industry. Since MSF is only writing in the worker’s compensation line of business, we will be evaluating the experience looking for services provided from firms understanding the unique operational issues of that line of insurance. This would include the pricing of a long tail line with unknown claims experience or expanding medical cost trends after pricing is established. In addition, there are unique risks associated with being a state fund created in state law and subject to legislative oversight as well as functioning as the insurer of last resort or guaranteed market. MSF believes these are key risk areas and will be evaluating the responding service provider based on their ERM services experience of the firm and the consultants assigned to the project. The criteria for evaluating the firm experience and the consultant’s experience are identified in 6.1 and MSF will evaluate the responses according to the criteria identified in that section.

Acknowledgment of Addendum:

The offeror for this solicitation must acknowledge receipt of this addendum. This page must be submitted at the time and date set for the proposal response or the response may be disqualified from further consideration.

I acknowledge receipt of Addendum #1.

Signed:_____

Company Name:_____

Date:_____